

## Message Text

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1549

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AMEMBASSY TOKYO

C O N F I D E N T I A L MOSCOW 8781

USDOC FOR BEWT/TDAD-TERLIZZI

E.O. 11652: N/A

TAGS: ETRD, EIND, EEWT, UR, US

SUBJECT: SOVIET NEGOTIATIONS WITH INTERNATIONAL PAPER ON  
YENESEYSK PROJECT

1. AT OPENING OF SEMINAR/EXHIBIT IN COMMERCIAL OFFICE JUNE 23, DEPUTY MINISTER OF PULP/PAPER INDUSTRY KRAPIVIN RAISED WITH AMBASSADOR AND COMMATT PROBLEMS WHICH HE SAID MINISTRY WAS ENCOUNTERING IN ITS NEGOTIATIONS WITH INTERNATIONAL PAPER ON YENESEYSK PROJECT. ACCORDING TO DRAPIVIN, MINISTRY WAS EXTREMELY ANXIOUS TO REACH AGREEMENT WITH IP ON YENESEYSK. HOWEVER, HE CLAIMED THAT IP WAS DEMANDING EXTREMELY LARGE FEE FOR ITS SERVICES AND HAD FAILED, THUS FAR, TO PROVIDE SOVIETS JUSTIFICATION FOR AMOUNT OF THIS FEE. KRAPIVIN SAID THAT IP WAS DEMANDING PAYMENT IN FORM OF 40,000 TONS OF PULP ANNUALLY OVER TEN-YEAR PERIOD, WHICH HE SAID SOVIETS VALUED AT TOTAL OF 250,000,000 RUBLES. HE ASKED AMBASSADOR WHETHER LATTER COULD INTERVENE WITH IP ON THIS MATTER. AMBASSADOR EXPRESSED HOPE THAT DEAL WOULD BE CONCLUDED BUT WAS NON-COMMITAL REGARDING COMMERCIAL ASPECTS OF IP-SOVIET DISCUSSIONS.

2. COMMENT: PROBLEM RAISED BY KRAPIVIN IS FAMILIAR ONE. IP QUITE NATURALLY PLACES HIGH VALUE ON ITS SERVICES AS PROJECT MANAGER AND ON TECHNOLOGICAL/MANAGERIAL EXPERTISE WHICH IT IS PREPARED TO PROVIDE FOR YENESEYSK PROJECT. FOR SOVIETS, WHO ARE UNUSED TO VALUE CONSIDERATIONS OF THIS TYPE IN THEIR  
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INTERNAL ECONOMY, IT IS CLEARLY VERY DIFFICULT TO JUSTIFY

PAYMENT OF HIGH FEES DEMANDED BY MAJOR WESTERN COMPANIES FOR THEIR SERVICES. ALTHOUGH NONE OF THE ABOVE INFORMATION IS LIKELY TO COME AS SURPRISE FOR IP, BEWT/TDAD MIGHT WISH TO PASS KRAPIVIN'S LAMENT ALONG. IF IP WERE ABLE TO GIVE SOME SORT OF DETAILED BREAK-DOWN OF ITS FEE, DEMONSTRATING TO SOVIETS WHY IT WOULD BE IN THEIR INTEREST TO PAY 250 MILLION RUBLES OVER NEXT TEN YEARS FOR ADVANTAGE OF SECURING IP'S PARTICIPATION IN YENESEYSK PROJECT, THIS MIGHT MAKE IT EASIER FOR SOVIETS TO SWALLOW THE PILL.

3. ON RELATED MATTER, JAPANESE COMMERCIAL COUNSELOR ADVISED COMMATT JUNE 24 THAT IN THEIR NEGOTIATIONS WITH JAPANESE FIRMS (PRINCIPALLY OKI (PHONETIC) PAPER) ON YENESEYSK, SOVIETS WERE NOW PROPOSING "TURN-KEY" ARRANGEMENT, WHEREAS THEY HAD PREVIOUSLY TALKED IN TERMS OF MAKING INDIVIDUAL PURCHASES OF EQUIPMENT FOR PLANT. IN ADDITION, HE SAID SOVIETS WERE NOW PROPOSING THAT REPAYMENT OF JAPANESE CREDITS FOR YENESEYSK BE IN CASH RATHER THAN IN FORM DELIVERIES OF PULP AND PAPER. COMMENT: THIS SUGGESTS THAT SOVIETS MAY NOW BE CASTING AROUND FOR POSSIBLE REPLACEMENT FOR IP AS PROJECT MANAGER. REPORTED SOVIET SHIFT FROM REPAYMENT IN PRODUCT TO REPAYMENT IN CASH MAY INDICATE THAT PROJECTED DOMESTIC REQUIREMENTS RULE OUT LARGE-SCALE EXPORTS. STOESSEL

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